

Treasure State Endowment Program

Program Description

The Treasure State Endowment Program (TSEP) is a state infrastructure-financing program approved by Montana voters with the passage of Legislative Referendum 110 in June 1992. Grant funding for the program is derived from investment earnings on coal severance tax funds and an allocation of the coal producer's license tax enacted in HB 260 by the 56th Legislature. TSEP loans are funded with proceeds from bonds backed by coal severance tax collections. According to 90-6-702, MCA, the purpose of TSEP is to assist local governments in funding infrastructure projects that will:

- 1) create jobs for Montana residents;
- 2) promote economic growth in Montana by helping to finance the necessary infrastructure;
- 3) encourage local public facility improvements;
- 4) create a partnership between the state and local governments to make necessary public projects affordable;
- 5) support long-term, stable economic growth in Montana;
- 6) protect future generations from undue fiscal burdens caused by financing necessary public works;
- 7) coordinate and improve infrastructure financing by federal, state, local government, and private sources; and
- 8) enhance the quality of life and protect the health, safety, and welfare of Montana citizens.

Infrastructure projects include drinking water systems, wastewater treatment facilities, sanitary sewer or storm sewer systems, solid waste disposal and separation systems, and bridges.

Eligible applicants include cities, towns, counties, and tribal governments, or county or multi-county water, sewer or solid waste districts. TSEP applications are submitted to the Department of Commerce on a biennial basis where they are evaluated according to a two-step process and are ranked according to: 1) ten statutory priorities, and 2) relative financial need. The ten statutory priorities focus on projects that:

- 1) solve urgent and serious public health or safety problems;
- 2) enable local governments to meet state or federal health or safety standards;
- 3) incorporate appropriate, cost-effective technical design and that provide thorough, long-term solutions to community public facility needs;
- 4) result in a benefit to the public commensurate with the amount of financial assistance requested;
- 5) reflect greater need for financial assistance than other projects;
- 6) enable local governments to obtain funds from sources other than TSEP;
- 7) provide long-term, full-time job opportunities for Montanans;
- 8) provide public facilities necessary for the expansion of a business that has a high potential for financial success;
- 9) maintain or do not discourage expansion of the tax base; and
- 10) are high local priorities and have strong community support.

The Department of Commerce (DOC) administers TSEP and makes recommendations for grant and loan awards to the Governor. The Governor makes funding recommendations to the Montana legislature. The legislature makes the final decisions on the award of TSEP funds.

Summary of Legislative Action

TSEP Grants

The 56th Legislature authorized \$12.6 million for 32 infrastructure projects in HB 11. This is a significant increase from previous biennia and is driven by increased interest earnings and a direct allocation of the new coal producer's license tax authorized in HB 260. Table 6 shows the historical TSEP grant and loan awards since the program's inception.

Table 6				
Treasure State Endowment Program				
Historical Grant and Loan Awards*				
1995 - 2001 Biennia				
Biennium	#		Award Amount	
	Grants	Loans	(in millions)	
			Grants	Loans
1995	20	4	\$3.966	\$0.168
1997	15	0	\$4.991	\$0.000
1999	22	4	\$9.111	\$1.905
2001	21	0	\$12.596	\$0.000

*Includes those approved and funded

Table 7 lists the grant awards appropriated for the 2001 biennium. Although HB 11 places a contingency restriction on the four lowest priority projects, there is projected to be adequate revenue to fully fund all authorized projects. HB 11 requires grant disbursements be made in priority order.

TSEP Loans

Section 90-6-703, MCA also provides for loans to eligible applicants as well as grants. Only eight loans have been authorized by the legislature since the program's inception in fiscal 1994. To date, none of the successful applicants have opted to secure a TSEP loan. The 2001 biennium Executive Budget did not include any TSEP loan requests.

Table 7
Treasure State Endowment Program Grants - 2001 Biennium
Approved by the 56th Legislature

Order	Applicant**	Utility	Grant Award	Cumulative Total
1	Harrison Water and Sewer District	Wastewater	\$ 500,000	\$ 500,000
2	Arlee Water and Sewer District	Wastewater	\$ 500,000	\$ 1,000,000
3	Highwood County Water and Sewer District	Water	\$ 400,000	\$ 1,400,000
4	City of Missoula	Wastewater	\$ 500,000	\$ 1,900,000
5	City of Thompson Falls	Water	\$ 500,000	\$ 2,400,000
6	Town of Philipsburg	Water	\$ 121,900	\$ 2,521,900
7	Town of Ekalaka	Wastewater	\$ 87,200	\$ 2,609,100
8	Rae Water and Sewer District	Wastewater	\$ 485,850	\$ 3,094,950
9	City of Big Timber	Wastewater	\$ 500,000	\$ 3,594,950
10	City of Glasgow	Wastewater	\$ 500,000	\$ 4,094,950
11	Corvallis County Sewer District	Wastewater	\$ 410,760	\$ 4,505,710
12	Town of Boulder	Water	\$ 500,000	\$ 5,005,710
13	Town of Denton	Wastewater	\$ 415,000	\$ 5,420,710
14	City of Cut Bank	Water	\$ 500,000	\$ 5,920,710
15	Richland County	Bridge	\$ 181,155	\$ 6,101,865
16	Town of Geraldine	Wastewater	\$ 300,000	\$ 6,401,865
17	Augusta Water and Sewer District	Wastewater	\$ 500,000	\$ 6,901,865
18	City of Havre	Water	\$ 303,747	\$ 7,205,612
19	Sweetgrass Community County Water/Sewer Distr	Wastewater	\$ 213,000	\$ 7,418,612
20	Lewis and Clark County	Bridge	\$ 500,000	\$ 7,918,612
21	Town of Drummond	Wastewater	\$ 292,850	\$ 8,211,462
22	South Hills Water and Sewer District	Water	\$ 500,000	\$ 8,711,462
23	City of Helena	Water	\$ 500,000	\$ 9,211,462
24	City of Red Lodge	Wastewater	\$ 500,000	\$ 9,711,462
25	Chester	Water	\$ 220,150	\$ 9,931,612
26	Willow Ck Sewer Dist., Gallatin Co	Wastewater	\$ 500,000	\$ 10,431,612
27	City of Columbia Falls	Wastewater	\$ 500,000	\$ 10,931,612
28	Lacasa Grande Water&Sewer Dist, L&C Co	Water	\$ 500,000	\$ 11,431,612
29	*Elk Meadows Water/Sewer Dist, Missoula Co.	Water	\$ 210,000	\$ 11,641,612
30	*City of Harlem	Water	\$ 179,311	\$ 11,820,923
31	*Midvale Water/Sewer Dist., Lincoln Co.	Water	\$ 374,720	\$ 12,195,643
32	*City of Shelby	Water	<u>\$ 400,000</u>	\$ 12,595,643
Total Grants Authorized			<u>\$ 12,595,643</u>	
* Funding for these projects is contingent upon available revenues				
** Applicants with shaded area were also approved for funding from the Renewable Resource infrastructure financing program.				

Other Legislation

House Bill 260 – HB 260 enacts major changes to coal extraction tax laws. A complete analysis is provided in the *Tax Policy and Initiatives* section, Volume 1 of the Fiscal Report. This paragraph describes the fiscal impact of HB 260 to the Treasure State Endowment Grant Program.

HB 260 contains two major changes to the coal severance tax: 1) it reduces the actual amount of coal severance tax collected by over 60 percent annually by allowing a coal severance tax credit for the newly-enacted coal producer's license tax; and 2) it reallocates the coal severance tax revenues deposited into the permanent trust. Prior to enactment of this bill, the treasure state endowment trust fund (TSEF) received 50 percent of coal severance tax revenues deposited into the permanent trust. Interest earnings from the trust are transferred to the TSEP state special revenue account and used for TSEP grants. With the enactment of HB 260, the TSEF receives 75 percent of coal severance tax revenues deposited into the permanent trust. However, the overall coal severance tax revenue reduction more than offsets the increased allocation, resulting in an overall coal severance tax revenue reduction of \$7 million for the TSEF in the 2001 biennium. The estimated impact of interest earnings to the TSEP state special revenue account due to passage of HB 260 is a biennial loss of approximately \$0.5 million.

HB 260 also creates a new coal producer's license tax. None of the coal producer's license tax is directed to the treasure state endowment trust fund. However, the TSEP state special revenue account receives a direct allocation from the new tax totaling \$4.6 million for the 2001 biennium and \$1.2 million per biennium thereafter. Since the TSEP state special revenue account is the account used to fund TSEP grants, these funds will be available for granting purposes in the 2001 biennium.

The combined fiscal impact of HB 260 to the TSEP state special revenue account is an increase of \$4.1 million in the 2001 biennium.

Senate Bill 220 – SB 220 creates a new account within the coal tax permanent trust fund for funding regional water systems. The new account is called the treasure state endowment regional water system trust fund. SB 220 allocates 25 percent of the deposits to the coal severance permanent trust effective July 1, 1999 through June 30, 2012. For the 2001 biennium, deposits to the treasure state endowment regional water system trust fund are estimated to be \$3.1 million.

SB 220 requires the earnings from the trust account be transferred to a state special revenue account and be available to fund regional water system projects. The SB 220 fiscal note projects trust fund earnings for the 2001 biennium will total \$600,000.

Executive Budget Comparison

The legislative authorization for the treasure state endowment grants for the 2001 biennium exceeds the executive budget recommendation by \$3.8 million due to the additional funding provided by HB 260. The additional funding allowed seven additional projects (items 27-32 on Table 7) to be approved for funding in the 2001 biennium.

Funding

In July, 1993, \$10.0 million was transferred from the coal severance tax permanent trust fund to the Treasure State Endowment Trust Fund (TSEF). In addition, the trust receives 75 percent of coal severance tax revenues deposited into the permanent trust through fiscal 2013. Funding for TSEP grants comes from the investment earnings on the Treasure State Endowment Trust, which are deposited into a TSEP state special revenue account. TSEF investment earnings for the 2001 biennium are projected to total \$11.0 million.

As noted in the Other Legislation section of this narrative, the TSEP grants also receive funding from an allocation of the coal producer's license tax enacted in HB 260. In the 2001 biennium, the TSEP state special revenue account is allocated \$4.6 million from this new tax.

In order to provide start-up funds for TSEP, the 1993 legislature authorized the Department of Commerce to borrow money from the Board of Investments (BOI), resulting in a \$4.13 million loan, which will be completely repaid by fiscal year end 2001. Because these loan payments are made from the investment earnings, once the loan is retired these funds will be available for grant awards. Loan payments during the 2001 biennium total \$2.4 million.

Table 8 shows the projected fund balance for the treasure state endowment state special revenue account for the 2001 biennium. Total new revenue and carryover funds in this account are estimated at \$16.0 million for the biennium, administrative costs and loan repayment are approximately \$3.1 million, and TSEP grants total \$12.6 million, leaving an estimated available fund balance of \$0.4 million at the end of the 2001 biennium.

Table 8 Treasure State Endowment State Special Revenue Account Fund Balance Projection, 2001 Biennium		
Estimated Beginning Fund Balance		\$476,222
Estimated Revenue*		
TSE Fund Interest Earnings	\$10,976,039	
Coal Producers' License Tax allocation	<u>\$4,600,000</u>	
Total Revenue		<u>\$15,576,039</u>
Total Funds Available		\$16,052,261
Estimated Expenditures		
Administration - Commerce	\$602,535	
Administration - DNRC	\$50,000	
BOI Loan Repayments	<u>\$2,404,172</u>	
Total Expenditures		<u>\$3,056,707</u>
Funds Available for Grants		\$12,995,554
Grants authorized in HB11		<u>\$12,595,643</u>
Estimated Ending Fund Balance		<u><u>\$399,911</u></u>
*Revenue has been adjusted to reflect passage of HB260		